
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

April 21, 2008

A meeting of the Policy Subcommittee was held on Monday, April 21, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 4:40 p.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice Chair
Louis F. Moret
Anne Sheehan
Charles Valdes

Other Board members present:

John Chiang, represented by Terry McGuire
Bill Lockyer, represented by Steve Coony
Priya Mathur
Tony Oliveira
Kurato Shimada

Agenda items were taken out of order to accommodate individual schedules.

AGENDA ITEM 2 – APPROVAL OF THE MARCH 2008 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the March 17, 2008 meeting minutes as presented.

AGENDA ITEM 5 – INFLATION-LINKED ASSET CLASS POLICY, Adoption of Infrastructure Program Component (FIRST READING)

Russell Read, Chief Investment Officer, Anne Stausboll, Chief Operating Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item.

The following consultants were available for comment:

- Michael Schlachter, Wilshire Associates
- Allan Emkin and Judy Chambers, Pension Consulting Alliance
- Ethan Lipsig, with Paul Hastings, Janofsky & Walker LLP (by phone)

In December 2007 the Investment Committee approved a 5% target allocation to the new Inflation-Linked Asset Class (ILAC) consisting of commodities, inflation-linked bonds, forestland and infrastructure. At that time, the Policy Subcommittee approved investment policies for the overall inflation-linked asset class for three of the four ILAC components: the commodities program, inflation-linked bond program, and forestland program. These policies were adopted by the Investment Committee in February 2008.

Staff presented the first reading of the proposed infrastructure policy which represents the results of extensive staff consultation with consultants, labor representatives, and investment managers. The proposed policy provides staff the flexibility to implement the program, maintain CalPERS objectives and goals, and provide protections for the interest of public sector employees.

The following union representatives commented on the proposed policy. Some issues were about public/private partnerships, outsourcing, impact on public jobs, and the CalPERS Responsible Contractor Policy.

- Scott Adams, AFSCME
- Terrence Brennand, SEIU
- Ken Casarez, Laborers International Union of North America
- Joshua Golka, Professional Engineers in California Government
- Dave Low, California School Employees Association

The Board members provided input on the proposed policy.

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to approve the first reading of the Infrastructure Program Component of the Inflation-Linked Asset Class Policy.

AGENDA ITEM 3 – POLICY SUBCOMMITTEE HISTORY AND BACKGROUND

Due to time constraints, this item was taken under consideration by the Subcommittee.

AGENDA ITEM 4 – TOTAL FUND, Revision of Policy on Asset Allocation Strategy

Farouki Majeed, Senior Investment Officer, and Rick Roth, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

The Asset Allocation Policy provides the framework for establishing the asset allocation policy mix and its implementation. Staff outlined the proposed changes to include active asset allocation and incorporate the targets and ranges approved by the Investment Committee in December 2007.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Asset Allocation Strategy.

AGENDA ITEM 6 – GLOBAL EQUITY, Revision of Policy on Internally Managed Global Equity Index Funds

Eric Baggesen, Interim Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

In March 2008, the Investment Committee approved the establishment of an international small / micro cap index fund and an emerging markets index fund. Staff presented the revised policy which will establish two new internally managed index portfolios.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Internally Managed Global Equity Index Funds.

POLICY REVIEW AND CONSOLIDATION PROJECT

Anne Stausboll, Chief Operating Investment Officer, reviewed the history of the Policy Review and Consolidation Project and outlined the project objectives.

Agenda Item 7 (below) reflects the results of the review of policies within the Global Fixed Income category of the Policy Manual. A phased review of all policies is ongoing and will be completed in 2008.

AGENDA ITEM 7 — Revisions of Global Fixed Income Policies

Curtis Ishii, Senior Investment Officer, presented the revisions to the Global Fixed Income policies. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Review of the policies was a joint effort and included input from the General Pension Consultant, the CalPERS Legal Office, and the Enterprise Office of Compliance.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee:

- a. Adoption of Policy on Global Fixed Income Program (consolidation of Dollar-Denominated Fixed Income and Externally Managed Active International Fixed Income Programs)
- b. Adoption of Policy on Low Duration Fixed Income Program (consolidation of Dollar-Denominated Fixed Income-Limited Duration and Internally Managed Dollar-Denominated Fixed Income Short-Term Programs)
- c. Revision of Policy on Lehman Aggregate Program (old name: Self-Funded Healthcare)
- d. Revision of Policy on Treasury Inflation Protected Securities Program
- e. Revision of Policy on Currency Overlay Program

AGENDA ITEM 8 – DRAFT AGENDA FOR JUNE 2008

The Subcommittee accepted the proposed June 16, 2008 agenda, with the addition of the second reading of the Infrastructure Program Component Policy.

AGENDA ITEM 9 – PUBLIC COMMENT

There were no additional public comments.

The meeting was adjourned at 6:20 p.m.

The next Subcommittee meeting is scheduled for June 16, 2008 at a time to be determined in Sacramento, California.